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Hams ready for cooking at Polish meat processing plant.

Polish-U.S. Farm Trade Seen Remaining Strong

By Andrew A. Duymovic

In recent years, Poland has bought sizable amounts of U.S. grain and oilseed meals and will probably continue to buy them from this country in coming years. However, this trade is subject to a series of conditions that could cause year-to-year variations in the amounts of Polish farm purchases.

Poland—a sizable importer of U.S. agricultural products in recent years—is expected to continue to obtain a significant share of its feed requirements from the United States in coming years.

However, a number of factors will govern this U.S.-Polish trade, including:

- The Polish Government's determination to meet consumer demand for livestock products;
- The size of the domestic grain and potato crops;
- Availability of grain from other suppliers, notably the USSR;
- Prices and credit policies of competitor supplier countries, especially in the European Community (EC); and
- The availability of USDA Commodity Credit Corporation (CCC) credits.

Trade plays an important element in overall U.S.-Polish relations. Its two-way value has expanded from about $170 million in calendar 1970 to a record $940 million in 1976, according to U.S. Census Bureau data. After reaching the 1976 peak, the value of total two-way trade dropped to $765 million in 1977, reflecting smaller Polish grain purchases, as well as lower grain prices.

Experience indicates that agricultural trade between the two countries probably will remain strong, despite changes in trade in industrial products. For example, U.S. farm exports accounted for more than two-thirds of total U.S. exports to Poland in calendar 1974 and 1975. The following year, agricultural products made up four-fifths of the total and in 1977 about three-quarters.

U.S. exports of agricultural products to Poland totaled $541 million in 1975/76 (October-September) and $311 million in 1976/77. In 1977/78, the total rose to $523 million, a jump of about two-thirds over the previous years. Larger purchases of corn and soybean meal during 1977/78 were mostly responsible for the increase.

This trade has been facilitated in part by the availability of U.S. CCC credit. As of October 1, 1978, total CCC financing provided Poland since 1962 amounted to about $1 billion, of which nearly $505 million was financed in 1977/78.

The CCC credit program is self-sustaining and commercial interest rates are charged—10½ percent at present if the obligation is guaranteed by a U.S. bank and 11½ percent if guaranteed by a foreign bank. Payment is guaranteed by commercial-bank letters of credit and the maximum financing period is 36 months.

The Agricultural Trade Act of 1978 authorized intermediate-term credit financing, which in the future may be extended to Poland to promote its purchases of U.S. farm commodities.

Like the current CCC program, the intermediate-term credit plan is a commercial program, but it provides for repayment over a longer period—up to 10 years in some instances.

Intermediate credit can be used to finance export sales of U.S. breeding animals. Other financing would be tied either to building reserve grain stocks, if consistent with international commodity agreements, or where determined feasible, to establishing facilities to improve handling, marketing, processing, storage, or distribution of imported agricultural commodities. Polish officials have expressed interest in this program.

Total Polish grain imports averaged about 2.5 million tons annually in the 1960's and exceeded 3 million tons from 1971 to 1973, 4 million tons in 1974 and 1975, and 6 million tons in 1976 and 1977. Wheat was the principal grain imported, followed by barley, but corn imports increased significantly in 1976, accounting for about one-third of total grain imports.

In November 1975, the United States and Poland reached an informal understanding on long-term grain sales in an exchange of letters between the Minister of Agriculture and the U.S. Secretary of Agriculture. Poland stated its intention to buy 2.5 million tons of grain annually until 1980, plus or minus 20 percent, depending on U.S. availability and Polish needs.

The U.S. share of Poland's grain imports fluctuated from 1960 to 1974. But in the last 4 years the U.S. share grew to an average of nearly 50 percent of Poland's grain purchases.

From 1967 to 1974, the Soviet Union provided between one-third and two-thirds of Polish grain imports, but only one-fourth in 1975, and less than 5 percent in 1976. Grain shipments from the USSR dropped as it expanded its own livestock sector. Also the USSR experienced sharp variations in grain production which greatly reduced export supplies.

In 1977/78 (October-September) U.S. grain exports to Poland totaled 3 million tons, up from 2.1 million in 1976/77. In 1978/79, U.S. grain shipments to Poland could be down slightly because of larger grain supplies in the USSR and the EC.

In addition to the United States and the USSR, other grain suppliers to Poland include Canada, Argentina, Sweden, and France.

From the end of World War II until 1971, industrial development received top priority from Polish Government planners, often at the expense of agriculture. As a result of the change of leadership in the Polish Government in 1970, industrial and agricultural policies were reevaluated.

In the agriculture sector, the revised policies called for a boost in food production with a marked increase in livestock products, particularly red meats and poultry. These changes were necessary to help meet the increased con-

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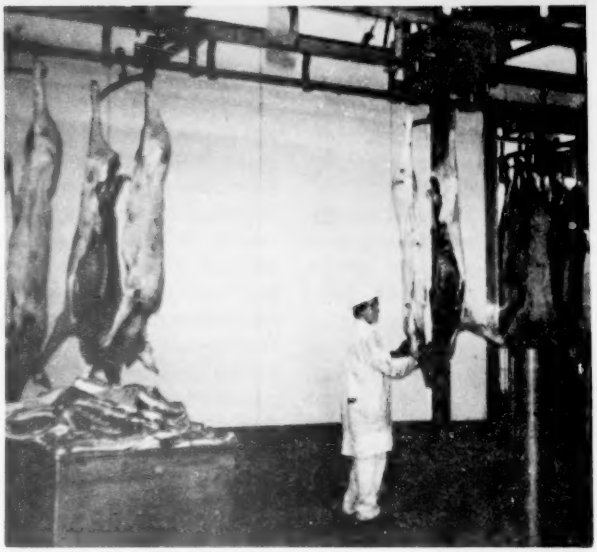

Clockwise from above, left: Foreign Trade Enterprises Building in Warsaw; sides of meat at Polish plant that exports to the United States; canned hams at Polish meat export plant. Poland is using foreign exchange from meat exports to help pay for imports of U.S. grain.

sumer purchasing power generated by increased real wages and stable retail food prices resulting from Government controls. Polish officials also decided to import food and animal feeds in years when domestic production fell markedly short of requirements.

Continued exports of quality food items—particularly canned hams and other pork products—also were considered important as a means of earning foreign exchange to help pay for Poland's imports. Another aim of the revised policies was to provide the conditions for structural changes in the technical and social aspects of agriculture.

Thus, provisions were made to foster the gradual concentration of land as well as to increase the scale of production. However, private farming still predominates in Poland, accounting for nearly four-fifths of the total value of agricultural output.

In response to these policies and favorable weather, total agricultural output rose 20 percent during 1971-75, compared with that of 1966-70. Output of crops has shown distinctly slower rates of growth than that of animal products. Polish statistics for 1977 show per capita meat consumption had risen to 68.9 kilograms, up three-tenths from 1970's. The peak was in 1975 when Poland averaged 70.3 kilograms of meat per person.

This substantial increase was achieved in considerable measure by resorting to sharply increased imports of grains, oilseed meals and other highly concentrated protein feeds.

During 1974-77 Poland's grain output fluctuated widely—from a record of nearly 23 million tons in 1974 to only 19.4 million tons in 1977. Output for 1978 is estimated at around 21 million tons, but is still disappointing owing to quality (high moisture) problems.

Current farm policies aim to boost grain production by increasing the use of fertilizer improving technology, and shifting from production of oats and rye to higher yielding varieties of wheat, barley, and corn. The Government also has been encouraging farmers to increase the area sown

to grains, aiming for 8.5 million hectares by 1980. However, attainment of most of these objectives has been slower than anticipated because of adverse weather in recent years; the structure of agriculture, which is characterized by a large number of small holdings; and economic reasons, such as inadequate producer price incentives.

The poor harvest of grains, potatoes, and roughage during 1975 caused a decline in livestock numbers, especially swine. This cutback began in 1976 and continued until the spring of 1977, when livestock numbers began to recover. In order to supplement its inadequate meat supplies, Poland stepped up imports, mainly beef, during this period and reduced its processed meat exports, mainly pork.

"Experience indicates that agricultural trade between the two countries probably will remain strong, despite changes in trade in industrial products."

The 20.8-million-ton total 1976 grain crop was up 1.3 million tons from 1975's, but grain imports continued to be significant as the Government attempted to rebuild and expand livestock numbers seriously depleted the year before. Unfortunately for Polish farmers and consumers, heavy rains and flooding in 1977 drove grain output down to 19.4 million tons, and potato production was off sharply to 41.3 million tons, well below 1975's poor crop.

The short potato crop aggravated the feed situation since potatoes are an important feed ingredient in the hog sector. The Polish Government authorized record grain imports in 1977/78 to promote the recovery of livestock and meat production.

Although Polish grain and potato crops were somewhat better in 1978 than in 1977, they were still inadequate to meet livestock needs and, combined with the poor quality caused by excessive moisture, forced the Government to continue its substantial imports of livestock feeds. Therefore, import needs for 1978/79 are likely to approach the high levels of the year before—estimated at around 6 million tons of grains, and 1.0-1.5 million tons of oilseeds (mainly soybeans) and oilseed products.

Poland's need for feedgrains in the years ahead will depend in part on whether it goes all out to meet its livestock production goals.

Past performance suggests that the targeted grain output is likely to fall short of the 1976-80 plan. Even with the absence of severe production shortfalls, Poland's grain import requirements will be substantial for the next several years. These grain requirements will hold, even if output of livestock products falls slightly below planned levels.

The 3-5 million tons of grains that Poland has indicated it would need each year through 1985 appears to be consistent with polish feed-livestock production objectives.

Recent Polish initiatives with regard to the grain agreements with Canada and France appear to confirm a continued commitment to meet its planned livestock production targets.

Some factors could dampen the levels of Polish imports of grains and feeds in the near term. These include any development resulting in further deterioration in Poland's trade balance and hard currency debt. Poland's ability to export to the West and availability of supplier credits, as a means to obtain foreign exchange, will play a role in determining its purchasing power to import needed feeds.

Any severe upward adjustments in world commodity prices resulting, for example, from adverse weather in major supplier countries, would also influence feed imports. Polish imports also could be reduced in the event of a prolonged interruption of traffic at any of the major Polish port elevators, which have been working virtually at capacity ever since the autumn of 1975.

Another determinant of the size of grain imports is Poland's retail price policy for food. Sharply higher prices for meat, frozen at 1968 levels at most shops, could reduce the pressure on meat supplies. This in turn would lower grain import requirements. The Government of Poland has been attempting to get its people gradually accustomed to some restructuring of prices, but with little success so far.

State-owned "commercial" shops already feature better meat selections than State stores, now referred to as "regular" shops, at sharply higher prices. But these new shops account for only a small share of meat sales. Because of domestic political considerations, it appears that retail meat prices will not be raised sufficiently in the near term to discourage the consumption of meat. Consequently, the need for feed imports remains.

Since feed supplies (domestic plus imported) have at best been in delicate equilibrium with livestock numbers in Poland, and since growth in domestic grain production is likely to increase only gradually, the Polish Government's commitment to expansion of the livestock sector indicates Poland is likely to be a significant importer of grain and feed probably through 1985. □

Bid/Performance Bonds: How They Affect The Small Exporter

By Robert Scholle

To minimize the risk of doing business with firms far from home, importers of agricultural products increasingly are requesting guarantees of exporters' ability to deliver products or services. Called bid/performance (B/P) bonds, these guarantees theoretically should assist the financially viable, scrupulous U.S. exporter. But that is not always the case, in part because of a lack of understanding about how such guarantees work.

Unfortunately, the small- and medium-size exporters are often the ones to suffer —not because of any deficiencies on their part but because of the difficulty of obtaining such bonds. Additionally, importer requirements sometimes are unrealisitc, tying the exporter to terms that he cannot possibly fulfill. Thus, time is long overdue for serious discussion among exporters, importers, and perhaps government agencies about standards and criteria for B/P bonds that meet the needs of both exporters and importers.

Essentially, an agricultural bid bond is a "good faith" guarantee made to an importer on behalf of an exporter—normally by a financial institution—stating that the exporter is prepared to sign a contract should his bid be accepted. By requesting a B/P bond, the importer ensures that all offers are genuine and that he is doing business with a reputable firm.

Should the exporter's bid be accepted and he not perform according to terms of the contract, the importer theoretically risks no financial losses since he draws on the guarantee.

Normally, a bid or performance bond for agricultural commodities will be issued in the form of an international letter of credit (L/C) by a U.S. bank to its own foreign branch or correspondent bank, which then will issue a guarantee to the appropriate local agencies. This local guarantee by an approved institution is normally accepted, the exception being where specific stipulations state otherwise.

The exporter's financial institution normally issues the bonds for bid and performance. The bank will have previously assessed the creditworthiness of the exporter, issued the bond or bonds on his behalf, and accepted the obligation to pay in event of default.

If default occurs, the bank will look to the exporter for reimbursement. Except in unusual circumstances, the financial institution's obligation to pay is conditional upon receipt of a draft (with or without documentation) specifying reasons for default.

In some countries, certain U.S. banks have been granted permission to issue the bonds directly to the appropriate purchasing agency. This permission is granted, and can be revoked, by the foreign governments, taking into account the reputation, size, and standing of the financial institution. The bid and performance bonds have one common denominator —they must be issued quickly. Speed is essential to an exporter who wishes to bid on a transaction brought to his attention at a late date.

In the last few years, there has been a direct relationship between increases in agricultural exports and importers' requests for B/P bonds. There are several reasons for this:

- Agricultural imports have increased in countries that traditionally request B/P bonds. These expanding markets include Middle Eastern countries with good financial reserves and developing countries able to obtain import financing from governmental assistance and other sources.
- Too many "telephone booth brokers" lacking agricultural experience, but not foreign political or business contacts, have tried unscrupulous methods to get rich quick. This has made importers cautious about concluding contracts without some form of recourse in case of default.
- Government buying agencies or departments are increasingly the importers of record and are requesting bonds to ensure that the bids they review come only from reputable and reliable sources.

Importers' requests for B/P bonds have served two major purposes—one desirable, one questionable.

In the first instance, many of the "telephone booth brokers" have been bypassed as a result of their inability to obtain the bonds.

In the second case, reputable small- and medium-size exporters capable of and interested in expanding into foreign markets face difficulties in obtaining bonds. Their problems lie with local banks' unawareness and lack of understanding of these bonds, coupled with the local banks' lack of international expertise. Moreover, larger city banks also are reluctant to offer these services to smaller producers, who thus are excluded from bidding on a number of transactions.

Some progress has been made, however, toward overcoming these problems.

To assist smaller scale agricultural clients, a number of regional banks have tried several methods of issuing bonds. Some banks have allocated portions of their existing credit facilities to local exporters for use as standby credit to larger banks to support bond capability. The disadvantage of setting aside a specific amount for such transactions is the inability to use these credit facilities for other functions.

Other banks have issued the bonds on a transaction-by-transaction basis, rather than by establishing a permanent facility, but they have encountered basic difficulties: This method takes more time, and should the bond required for any one transaction—plus the exporter's regular outstandings—be more than the total line available, bids for transactions well within the exporter's capability may never be tendered.

Small exporters complain that the cost of such bonds is very high, since local banks often ask for 100 per-

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cent cash collateral (noninterest bearing) to secure the bonds. These funds are nonproductive to exporters, producing no profits and also having a lost "opportunity cost."

The issued bonds actually are more indicative of shipping ability than of the financial standing of the exporter, although the banks must be certain that in case of default the exporter has sufficient financial reserves. Bonds traditionally have ranged from 2 to 15 percent of the value of the commodity to be exported.

A few problems may arise due to the tenor of bonds, certifications required, and the general lack of available information.

In theory, the concept of the performance bond is to guarantee the importer that the exporter will provide the goods/services as agreed. This can cause conflicts when perishable commodities are involved. Generally, an exporter has little control over goods after the carrier leaves a dock or airport.

Importers continuously request, and exporters provide, bonds for such long periods of time that in a number of cases the commodity has been imported and consumed before the bonding period ends.

With few exceptions, it is difficult to make an exporter responsible for an agricultural commodity long after shipment. Nevertheless, in their rush toward greater export sales, some firms may incur what amounts to a lifetime commitment under a bond for shipments long since untraceable or consumed.

It is entirely proper for an importing country to set its own standards concerning these bonds. But if exporters refused to ship until more realistic stipulations were put in tenders, importers would be more receptive to change. In the immediate absence of such a possibility, you as an exporter would be well advised to:

- Make certain well ahead of time that your bank is prepared to issue B/P bonds.
- Do not bid on transactions unless absolutely certain you can perform; otherwise you may lose money.
- When issuing a bond, do not provide for certifications that you are unable or unwilling to obtain or deliver.
- Do not issue a bond that does not have a specif-

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Steps in Obtaining B/P Bonds

Unless the local bank has direct relationships with foreign banks, the situation often becomes extremely complicated, whereby:

I ⟶	II ⟶	III ⟶	IV ⟶	V
Exporter requests B/P bonds	**Local bank** opens domestic back-up L/C to larger U.S. bank	**Larger U.S. bank** issues international L/C to foreign bank or correspondent	**Foreign bank** issues local bond to Importer	**Importer** receives B/P bond

Needless to say, the more banks involved in a transaction, the more likely the possibility of error due to faulty communication or interpretation.

Larger exporters doing business directly with larger U.S. banks always bypass steps I and II and often bypass IV, since such banks have been selectively granted permission to issue the B/P bonds directly to importers and/or government buying agencies.

Hungary Is Seen As A Major Sunflowerseed Oil Exporter

By Abdullah A. Saleh

Hungary is a relatively small sunflowerseed producer (230,000 tons in 1978) compared with its other East European neighbors, such as the Soviet Union and Romania. However, it ranks among the larger exporters of sunflowerseed oil (an estimated 50,000 tons in 1978). Nearly one-half of all the sunflowerseed oil Hungary produces is exported—primarily to neighboring European countries. These exports represents about 80 percent of Hungary's total vegetable oil shipments.

Although oilseeds account for only 4.5 percent of Hungary's arable land, they occupy a significant position in Hungary's farm economy and receive special research emphasis.

In 1977, of the 4.9 million hectares of arable land, about 3 million hectares were planted to grain and about 240,000 hectares were planted to oilseeds, such as sunflowers, rapeseed, soybeans, and flaxseed.

Sunflower area in 1978 surpassed the planned figure of 145,000 hectares and reached 147,000 hectares, compared with 138,000 hectares planted in 1977.

The growth in sunflower area in recent years has come at the expense of forage crops. Sunflowers require less moisture than corn and do well in rainfed areas. Corn, on the other hand, is more profitable in irrigated areas.

The average yield per hectare for sunflowerseed has grown steadily in recent years, reaching 1.53 tons in 1977. It is believed that during the next few years, Hungary can increase per hectare yields by about 25-30 percent through use of new hybrid seeds. For this reason, there are no plans for major increases in area planted to sunflowers.

Hungary's exports of sunflowerseed oil are usually in crude form, averaging 30,000 to 50,000 tons annually. The oil is usually exported to West and East European countries, mainly Austria and East Germany. Hungary also exports about 6,000-10,000 tons of rapeseed annually. Linseed and soybean oils are produced but not exported.

Traditionally, Hungary has exported small quantities of sunflowerseed, relative to its production, and resorts to such exports when total oilseed supplies exceed the country's crushing capacity, which currently stands at 280,000 tons annually (seed basis).

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Top: Discussing Hungary's sunflowerseed production are (from left): L. Dallos, commercial assistant, U.S. Embassy, Budapest; the author; S. Tibor, director of Bacsalmas State Farm; and Dr. F. Sarkazi, Ministry of Agriculture and Food, Budapest. Left, Nicholas Thuroczy, U.S. Agricultural Attaché, Vienna, examines Hungarian sunflowers.

This capacity represents the output of five oilseed extraction plants—two large ones in Budapest and Gyor and three smaller, older ones that may be phased out soon.

Since the current crushing capacity is insufficient to process all the oilseeds Hungary produces, a new plant is being built near Martfu—in the middle of the sunflower producing region. Its capacity is expected to be 1,000 tons daily (sunflowerseed equivalent) and is scheduled to come into operation by the end of 1980. When this new plant comes on stream, the more obsolete, smaller plants will be phased out. The country then is expected to have a daily crushing capacity of 1,200-1,400 tons, which is needed to extract the larger oilseed/output anticipated for the 1980's.

Since Hungarian protein meal production is very low —about 120,000-150,000 tons annually—and since the country is a net exporter of vegetable oil, Hungary imports meal rather than oilseeds to satisfy its protein meal needs. In recent years, Hungary's import requirements of high protein meal—primarily soybeans—have been growing at a rate of about 5 percent annually.

During 1977/78, Hungary's soybean meal imports were estimated at 600,000 tons. Brazil supplied about 75 percent of this market, and the United States, the balance. Since Hungary purchases meal for cash and on an optional-origin basis, the determining factors for origin are quality and price.

About 70 percent of Hungary's sunflowerseed production is on modern industrial farms that are joint ventures among selected socialized farms. Such arrangements are known as production systems. The prinicpal contractor is usually a State farm, which provides management technology, hybrid seeds, and guidance in return for a fee. Revenue collected from participants is used to maintain the system and conduct further research aimed at sunflowerseed improvement. Under these systems, sunflower yields are about 25 percent higher than those outside the system.

In 1977, about 90 percent of Hungary's total sunflowerseed area was planted to open-pollinated (nonhybrid) varieties. Only 10 percent of the area was planted to hybrids. In 1978, the share of area planted to hybrids had risen to 20 percent.

Traditionally, open-pollinated varieties are of Soviet origin with an oil content of about 45 percent. Domestic varieties provide 28-30 percent of oil content. Soviet varieties—developed at Kraznodar—currently account for 70 percent of Hungary's sunflowerseed production. Recently, however, Soviet varieties have become more susceptible to disease, and Hungarian officials are looking for hybrids that are more disease-resistant.

Hungary has no hybrid sunflowerseeds of its own; seeds are purchased from France, Romania, and Yugoslavia. Although work currently is being conducted on hybridization, the development of a Hungarian hybrid sunflowerseed is not expected before 1985.

Sunflowerseeds are usually shelled and prepressed before applying solvent in the extraction process. Shells are used primarily for fuel or feed. Meal is used domestically, since the country is protein-deficient and traditionally an importer of meal.

Sunflowerseed oil is used in margarine, vegetable shortening, and as a liquid oil by urban Hungarian consumers. Total per capita consumption of edible fats and oils in Hungary is relatively high—an estimated 27-28 kilograms per year.

The current consumption trend favors more vegetable oil consumption, particularly by urban consumers; most of the lard (per capita annual consumption of 16-17 kg) is consumed by people in rural areas. In the past 10 years, vegetable oil consumption as a percentage of total fats and oils consumed has doubled. □

India's 1978 Tea Output Approximates Year-Earlier Record

By Vishwa M. Tandon

India's 1978 tea production is believed to have approached the 1977 record, but exports probably fell considerably short of earlier expectations.

Production during the first 9 months of 1978 totaled 423,400 metric tons, about the same as the 424,742 tons harvested during the same period a year earlier. The crop this year was hurt by a long dry spell in important tea-producing areas in India's northeast.

Exports during January-July 1978 are estimated at 91,000 tons, 20,000 tons less than the volume exported in the first 7 months of 1977. The decline has been laid to a rise in competition from other tea exporting countries, following reversal of last year's price trend and sluggish overseas demand.

Judging from the production trend in recent months and relatively lower export prices, it appears at best that production in 1978 approximated the 1977 level.

The 1977 tea production record—560,000 tons—was 9.6 percent greater than the previous year's output of 512,000 tons—also a record. Indian tea growers have not experienced an increase of that magnitude for the past two decades.

Contributing to the rise in 1977 outturn were long periods of exceptionally favorable weather; greater application of fertilizers, especially urea; and employment of coarse plucking techniques to enable exporters to capitalize on 1977's high export prices.

These phenomenal world prices pushed India's export earnings from tea to Rs 5,416 million ($633 million equivalent), some 98 percent higher than the previous year's value—making tea India's No. 1 foreign exchange earner. This increase occurred despite a small decline in export volume.

India's tea exports in calendar 1977 totaled about 230,000 tons. About 53 percent of this total went to the United Kingdom and the Soviet Union. The latter country looks to India in some years for around 90 percent of its annual tea requirements.

While its 1977 imports of Indian tea enabled the United Kingdom to retain its traditional rank as the principal foreign market for the Indian tea, U.K. purchases from India were only 84,928 tons, 38 percent less than its average imports of 135,900 tons in the late 1950's.

Indian tea exports to the United Kingdom have been partially displaced by shipments of East African teas, which have captured a 35-percent share of the U.K. market, up from the 4 percent share of 1951. The Indian share has dropped from about 60 percent in the early fifties to between 35 and 47 percent in the early seventies.

Soaring world demand for tea in 1977, in reaction to steep coffee price rises —and the drop in tea exports by Sri Lanka—caused a particularly strong spurt in India's tea prices between February and April 1977. This climb ended a 20-year stagnation in India's real tea prices as domestic tea prices rose to new peaks.

The price of leaf teas at the Cochin Center reached $4.05 per kilogram in the third week of March 1977, a price some 187 percent higher than in March 1976.

Alarmed by these violent price gyrations, the Indian Government in April 1977 took steps to restrict exports and to absorb some of the extraordinary profits that would otherwise have accrued to the trade by canceling the excise duty drawback on exports of bulk teas and imposing a duty of 62.5 cents per kilogram. Later, the Government placed an upper limit on tea exports in Indian fiscal year 1977/78 (April-March) at 225,000 tons.

The tea price upsurge was temporary, however, and the slide started almost immediately in the wake of these Government actions.

By mid-December 1977, prices had plummeted to $1.36 per kilogram, about 15 percent below the average of a year earlier, and 66 percent under the early 1977 peak.

Prices in 1978 continued to be considerably lower than in most of 1977. During the third week of September 1978, leaf tea prices at the Cochin Center averaged $1.48 per kilogram.

The price realized by Indian teas in the London auctions between January 1, 1978, and October 6, the same year, averaged $2.51 per kilogram, against $3.41 in the corresponding period of 1977.

A Food and Agriculture Organization (FAO) study reveals that, except for temporary departures from the trend, the decline in tea prices may continue until the early 1980's, when they may be below the 1972-74 average.

In response to strong and repeated pleas by exporters that Indian tea was being priced out of the market—mainly because of the 62.5-cent-per-kilogram export duty—the Indian Government reduced this tax to 25 cents per kilogram, effective September 7, 1978. However, it simultaneously clapped a ceiling on exports of 200,000 tons for the 1978/79 Indian fiscal year to insure that no shortages develop on the domestic market.

The cut in export duty and higher London tea-auction prices have improved chances for a strengthening of Indian tea exports. Nevertheless, it was expected that the industry would find it difficult to make up before yearend for the earlier 1978 shortfall in

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volume and value.

The Indian Government has in recent years laid considerable emphasis on the promotion of value-added teas sold in packets, bags, or as instant tea. But, compared with the size of bulk tea exports, those of value-added teas are small. This is because India is having trouble penetrating markets where multinational tea firms already are firmly established and because some importing countries limit tea imports by tariff barriers.

In the U.S. and European markets, where current sales amount to no more than 5-10 percent of total Indian tea exports, India is making strong efforts to gain a large market for packaged teas. At present, West Asian and African countries—particularly Dubai and Sudan—take most of India's value-added teas (60 percent of the 12,150 tons exported in 1976).

In Europe, the Indian Government's Tea Board has augmented its regular promotion program with advertising and sales campaigns at European trade fairs.

Because larger exports will require greater production, Indian tea growers are looking for new ways to boost output. Growers are alarmed by predictions that expanded domestic consumption—resulting largely from increases in the number of domestic consumers in all income categories—could leave little surplus for export by the 1980's.

To preclude this possibility, growers estimate production would have to be boosted from the 1977 level of 561,000 tons to 610,000 tons by 1980; to 750,000 tons by 1985; and to 1.3-1.4 million tons by the turn of the century. But these higher levels may be difficult to achieve as there is no virgin land to plant to tea and little of the land now under cultivation can be diverted from other crops.

Protected from the sun by wide hats, plantation workers pluck tea at Indian tea estate (top); worker at estate in Coonoor District (bottom).

The attainment of larger yields may be the only way to boost tea tonnage, although finding solutions to some financial problems could also encourage the producers to increase output.

Average tea-garden yield —at 1,405 kilograms per hectare (based on area and production in 1976)—already is the highest in the world and is attributable to the fact that 75-80 percent of India's tea area is in estates of 200 hectares or more. This makes it possible for growers to apply advanced managerial and production techniques.

In addition, organizations such as the United Planters' Association of Southern India and the Tea Experiment Station at Jorhat (in northeast India) are raising growers' hopes that yields can be boosted by procedures now being passed on to planters.

To achieve the higher yields, studies are being made to determine how to get the best results from the use of fertilizers, pesticides, and herbicides. Attention also is being given to development of high-yielding varieties of clones; to perfecting new drying techniques—especially that known as fluidized-bed drying, which could reduce drying cost by 25 percent.

Cheaper substitutes also are being sought for plywood and foil packing, cost of which rose sharply between 1963 and 1973, and new merchandise formulas are being developed to boost consumer acceptance of Indian tea—particularly of value-added tea—an action that might result in a higher per unit return.

One of the financial problems facing growers is the revelation by a National Seminar on Tea that tea is being taxed under some 22 different schedules, a web that could retard growth of the industry. It also has been pointed out that the relationship between prices and the return on investment must be considered if growers are to invest more of their resources in tea gardens.

However, in general, it is believed that despite the FAO forecast about the possibility of a long-term drop in real tea prices, tea production might expand noticeably and still maintain its profitability if economic conditions remain healthy and the application of superior culture practices boost yields by significant amounts. Also, the higher prices being paid for Indian tea by OPEC (Organization of Petroleum Exporting Countries) customers may foreshadow a further strengthening of the Indian tea economy.

Indian tea exporters are pointing out to the Government that although tea exports are a strong source of foreign exchange, and tea is the country's major domestic beverage, only in the proper environment of Government support can the industry push production to meet the demands of both markets. □

Farming in Iceland: Europe's Northern Tip

By Marshall H. Cohen

Conditioned by its northern location, just south of the Arctic Circle, Icelandic agriculture bears a unique stamp.

The growing season is short and cool, the soil is largely volcanic ash and basalt and not suitable for diversified output, and—in many parts of Iceland—soil erosion is an additional handicap. Nevertheless, Icelandic farmers have successfully mixed technology with natural resources for an efficient agriculture almost entirely based on sheep and grass. Agriculture thus has been able to supply the country's population of about 220,000 with large shares of needed livestock and dairy products.

With a cool climate preventing grain production beyond small quantities of oats and some experimentally grown barley, hardy grasses provide nearly all the feed used in Iceland. These pastures, in turn, make up most of the 7 percent (140,000 hectares) of arable land that is cultivated.

Grass, combined with some concentrates fed during specific mating and lambing periods, has been sufficient to support a flock of about 850,000 sheep. Conservation of the rangeland has been a growing concern in Iceland owing to overgrazing on certain pastures.

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The purebreed Icelandic sheep is a unique Northern European short-tailed race that has existed in Iceland since the first Viking settlement from A.D. 870 to 930.

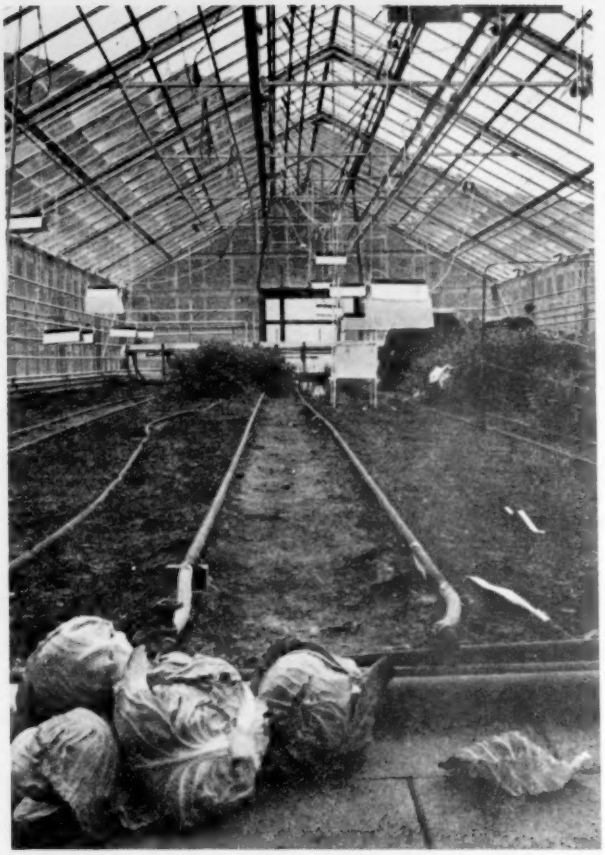
Sheep are raised primarily for meat, and output has risen sharply due to a combination of improved winter feeding and genetic selection.

About 85 percent of the meat production of 14,600 tons in 1977 was from fat lambs. The lambs grow relatively fast, despite high cost of indoor winter feeding, reaching an average liveweight of 36 kilograms at slaughter (about 120-130 days of age).

Icelanders hold the world record for consumption of sheep meat at 44 kilograms per person. This compares with an average of 3 kilograms for Western Europe and only 1 kilogram in the United States. New Zealand consumption ranks second at 34 kilograms per capita.

Woolen goods are produced in Iceland from special breeds of sheep genetically controlled to get color variations. This wool requires no synthetic dying.

Typically, an Icelandic farm is a mixed dairy and sheep enterprise, with about 300 sheep and 10-15 head of cattle (mostly milk cows, whose yearly average yield approaches 4,000 kgs). Hog and poultry production plays a minor role in Icelandic agriculture since the climate inhibits grain production. Hogs are generally raised near dairies, where skim milk for feed is available.



A geothermally heated hothouse at Hveragerd.

Imported feedgrains—including about $482,000 worth of corn from the United States—was used in 1977 for hog and poultry concentrates. However, there have been active experiments to reduce dependency on grain imports by increasing the proportions of grass, fats, and fishmeal—all home produced—in the ration, while decreasing the proportion of grain.

Many of the 3,700 farmers in Iceland supplement their income by raising Icelandic ponies, which possess several unique "gaits." They are commonly used to muster sheep and as draft animals, but some are sold abroad as show animals or to sportsmen.

Although Iceland's economy has been seriously plagued by inflation—prices increased by 40 percent in 1978 forcing a new coalition Government to embrace anti-inflation measures—natural energy resources have been a strong economic benefit. Hydropower provides over 90 percent of electricity while geothermal systems provide heating for a large percentage of urban and farm residents.

Iceland imports a large percentage of fruits and vegetables — including some $1.7 million worth from the United States—but glasshouses utilizing geothermal heat supply a wide variety of products, such as cabbage, peppers, tomatoes, lettuce, and even bananas. □

Turkish Vegetable Oil Output Up, But Imports Still a Must

Turkey's 1978/79 edible oil production is currently estimated at roughly 440,000 tons, 12 percent above that of last year. Nevertheless, Turkey is expected to import vegetable oils in relatively large quantities in order to keep its margarine industry in business.

A substantial increase in olive oil output (145,000 tons, compared with 60,000 tons in 1977/78) could more than offset slight declines in cottonseed and sunflowerseed oils (127,000 tons and 147,000 tons, respectively).

Although olive oil supply is abundant relative to the previous season's (an off-year), it benefits Turkey to export olive oil at premium prices and import other oils, such as soybean and cottonseed oils, at lower prices to keep the margarine plants operating at full or near full capacity.

Anticipated demand for seed oils is estimated to be at least 80,000 tons greater than the domestically produced seed oil supply. However, failure to import seed oils in time and the lack of liquid and hydrogenated seed oils in the market may switch a portion of demand to relatively expensive, but readily available olive oil, thus reducing the import requirement for seed oils.

Turkey is expected to remain a net seed oil importer in 1978/79 with a surplus of olive oil for export. Olive oil exports during 1977/78 were estimated at only 7,000 tons, and Turkey is striving to increase its olive oil exports to earn foreign exchange needed for seed oil imports.

In view of Turkey's current foreign exchange situation, the office of the U.S. Agricultural Attaché in Ankara believes Turkey will try to keep its foreign exchange allocated to seed oil imports as low as possible, either by encouraging consumers to use more olive oil or resorting to barter trade whereby olive oil is exchanged directly or indirectly for seed oils. The Government of Turkey may also allow the Government-controlled cooperatives to blend olive oil with seed oils and thereby ease the edible oil shortage.

Including olive oil, 1977/78 total supply for edible oils was adequate to meet total demand. However, consumers' preferences for less expensive seed oils and margarines necessitated seed oil imports of about 25,000 tons. The bulk of these shipments arrived after May 1978.

Even with these imports, the shortage of margarine and liquid seed oils could not be overcome. Oil refiners and margarine manufacturers were operating at 30-50 percent of capacity.

For the first time, the Government of Turkey is considering the purchase of seed oils from foreign suppliers in exchange for olive oil. Through such barter deals, foreign exchange earned from exports of other commodities would not have to be spent for imports of vegetable oil.

An acute shortage of margarines and refined seed oils in the Turkish market has encouraged speculators to hang on to stocks in anticipation of higher prices.

In the absence of restraints on seed oil imports, Turkey has the potential for exporting 50,000 tons of olive oil that would otherwise move into domestic channels. □

Based on a report from the Office of the U.S. Agricultural Attaché, Ankara.

Australia: Record Wheat Crop Seen

Australia's Bureau of Statistics has announced its first estimate of 1978 wheat production at a record 15.2 million tons, compared with the 1977 crop of 9.4 million tons.

The previous record of 14.8 million tons in 1968 resulted in the big planting cutback in 1969. Wheat area harvested in 1978 is estimated at 10.2 million hectares, second only to that of 1968 at 10.8 million hectares.

Large crops of barley and oats as well as wheat are straining handling and transportation facilities, and delivery restrictions have been imposed in Queensland. □

Correction: December 18 issue, page 3, line 6 should read: "Of these four commodities, cooperatives' direct share of total exports ranged from 8.2 percent for feedgrains to 22.1 percent for cotton.

"For some commodities, cooperatives' direct share of total exports was much higher."

The headline of the lower chart, page 3 should read: U.S. Cooperatives' Direct Farm Exports and Share of Total U.S. Agriculture Direct Exports of the Commodity, 1976. □

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Coffee Crop Estimate Unchanged

The third USDA estimate of 1978/79 world coffee production is for a total outturn of 74.5 million bags of 60 kilograms each—almost the same as the second estimate and 7 percent larger than the 1977/78 world crop. Based on past performance, chances are two out of three that the estimate of total production will not vary more than 3.3 percent from the final outturn for the year.

Exportable production, which represents total harvested production less domestic consumption in producing countries, is estimated at 55.3 million bags in 1978/79. In 1977/78, it was 51.2 million bags.

The total output in North America for 1978/79 is slightly higher than the second estimate because somewhat higher estimates for Honduras and Nicaragua more than offset a downward revision in Guatemala's outturn. The main change in South America is a sizable increase in the estimate for Colombia, mainly the result of more new plantings coming into production and favorable weather.

The reduction of more than 700,000 bags in the estimate for total African output is based on the outlook for significant decreases for crops in Angola, the Ivory Coast, and Uganda, which more than offset upward revisions in production estimates for Ethiopia. Dry weather again is a cause for concern in the Ivory Coast. Angola's crop is reported down sharply, and internal problems likely will hamper complete harvestings in Uganda.

Total production estimates by region and principal producing countries for 1978/79 in 1,000 bags (revised 1977/78 estimates in parentheses) are: Total North America 15,090 (13,977); Costa Rica 1,600 (1,550); Dominican Republic 750 (1,010); El Salvador 2,900 (2,050); Guatemala 2,500 (2,350); Honduras 1,100 (1,100); Mexico 3,800 (3,600); and Nicaragua 1,075 (967).

Total South America 34,440 (31,466); Brazil 20,000 (17,500); Colombia 10,800 (10,346); Ecuador 1,483 (1,474); Peru 1,050 (1,050); and Venezuela 870 (900).

Total Africa 18,289 (17,318); Angola 900 (1,120); Cameroon 1,660 (1,500); Ethiopia 3,000 (3,000); Ivory Coast 4,165 (3,285); Kenya 1,336 (1,233); Madagascar 1,300 (1,273); Tanzania 850 (838); Uganda 2,000 (2,200); and Zaire 1,500 (1,450).

Total Asia and Oceania 6,725 (6,854); India 2,000 (2,133); Indonesia 3,180 (3,218); Philippines 600 (571); and Papua New Guinea 700 (617). □

Continued from page 6

Bid/Performance Bonds

ic expiration date.

- Try to make the expiration date coincide with your payment from the U.S. bank after it has negotiated your documents. Ship only under confirmed L/C's if bonds are requested.
- If your insurance covers some of the performance factors, try to delete these specific factors from your bond and make reference to the insurance.
- Complain when specific requirements in tenders are either against industry practice or unrealistic.
- Do not wait until the last minute to get your bond issued or you will find yourself out of bidding.
- Make others in your industry aware of unreasonable requests for bonds so pressure can be applied toward obtaining more realistic stipulations.
- Always show your banker a copy of the tender offer so that misunderstandings or errors do not eliminate your chances of winning the contract.

While these bonds are not now part of every export transaction, their growth may have a significant effect upon exporters in the future. It thus makes sense for exporters to make themselves familiar with these instruments and their potential uses. □